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FM AMEMBASSY DAMASCUS

TO RUEHC/SECSTATE WASHDC IMMEDIATE 7653

INFO RUEHEE/ARAB LEAGUE COLLECTIVE IMMEDIATE

RUEHAK/AMEMBASSY ANKARA IMMEDIATE 4293

RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE

RHMFIISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE

RHEHNSC/NSC WASHDC IMMEDIATE

RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 001082

SIPDIS

SIPDIS

NEA/ELA

NSC - EABRAMS/MSINGH

TREASURY FOR GLASER/LEBENSON

EB/ESC/TFS FOR SALOON

E.O. 12958: DECL: 03/08/2016

TAGS: ECON ETRD SY

SUBJECT: MOVING FORWARD ON THE SYRIA-TURKEY FREE TRADE

AGREEMENT

REF: 05 DAMASCUS 5373

Classified By: A/CDA Kathy Johnson-Casares, reasons 1.4 b/d

¶11. (C) Summary: The Syrian press reported last week on the Turkish Parliament's approval of the Syria-Turkey Free Trade Agreement (FTA), indicating that it would increase bilateral trade to \$2 billion by 2007. Turkish diplomatic contacts have stated that implementation of the agreement is still contingent on final ratification and signature by the Turkish Council of Ministers, and are uncertain how soon this will happen. Reaction from the Syrian business community on this latest news is mixed; some contacts are optimistic that approval will add an attractive new market while others worry about the potential costs to Syria's weak industrial sector, especially textiles and ready-made garments (RMG). While the Syria-Turkey FTA is heralded by the SARG as positive for the Syrian economy, several contacts in the business community are skeptical of how soon benefits of the free trade agreement will be realized, pointing to competition from the unstemmed flow of third country goods entering the Syrian market already under GAFTA. End summary.

¶12. (U) The local press reported last week that Turkey took another step toward ratifying the Syria-Turkey FTA when the agreement was approved by the Turkish Grand National Assembly on March 1. Media reports suggested that the Syria-Turkey FTA, which now awaits implementation by the Council of Ministers, is expected to increase bilateral trade from \$800 million USD in 2005 to \$2 billion USD by 2007. While the SARG has previously trumpeted the importance of Syrian-Turkish economic cooperation as a sign of the strength of political relations (reftel), local media reports on the Turkish Parliament's recent approval of the Syria-Turkey FTA have been muted.

¶13. (C) Ferit Orcun Basaran, economic officer at Turkey's Embassy in Damascus, confirmed that the press reports regarding the FTA were generally accurate. He verified that the agreement will not be implemented without the approval of the Turkish Council of Ministers, and acknowledged that he was not certain when the Council would meet to discuss the issue. Basaran commented that the FTA is generally supported by Turkish exporters, and emphasized that the Syria-Turkey FTA succeeds Turkey's free trade agreements with other EU-Mediterranean Association Agreement partner countries, such as Morocco, Tunisia, and Egypt. He also pointed out that the benefits of the FTA would not be immediate for all

Turkish exporters since the reduction on customs duties for Turkish exports to Syria would be phased-in over a 12-year period, whereas customs duties on all Syrian exports would be eliminated upon implementation of the FTA. While the FTA is expected to increase the trade and investment volume between the two countries, the SARG's projections are viewed by Post contacts to be overly optimistic.

¶ 14. (C) Abulhuda Lahham, board member of the Damascus Chamber of Commerce and member of the Syrian-Turkish Business Council, spoke positively about the Turkish Parliament's recent approval of the FTA, and is confident that the Turkish government will implement it prior to a Syrian trade delegation visit to Turkey at the end of April. The FTA with Turkey, deemed by Lahham as "unavoidable," will immediately eliminate the customs duties on Syrian exports once implemented, and according to supporters, will have the potential to expose 75 million Turkish citizens to Syrian goods. Opponents of the FTA are concerned that it will significantly increase competition for Syrian industrialists, as Turkish goods are viewed by Syrians to be "European" and thus of better quality than the Syrian equivalents. Lahham, too, admits that in the short-term, Syrian industrialists, particularly producers of machinery, textiles, and chemicals, will face increased competition. However, he believes Euro-Mediterranean Association Agreements. that FTAs, such as the Greater Arab Free Trade Agreement (GAFTA) and the Syria-Turkey FTA have provided a "wake-up call" for Syrian industrialists "who thought they could sleep through globalization" under SARG protectionist measures". Lahham postulated that the Syria-Turkey FTA may be the beginning of a possible series of several bilateral trade agreements that the SARG pursues in the near future, mentioning the

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possibility of an FTA with China in order to cut out trade intermediaries and staunch the flow of third-country goods that are entering the Syrian market duty-free under GAFTA.

¶ 15. (C) Rami Kuweifati, a textile producer in Aleppo, offered a more lukewarm reaction to progress on the Syria-Turkey FTA. In conversations with the Aleppo Chamber of Industry, Kuweifati was informed that the agreement had not been officially signed and was not expected to be implemented in the near future. Kuweifati admitted that the FTA with Turkey has the potential to put several Syrian textile and RMG companies out of business because Turkish garments - especially for men and women - are viewed as more fashionable. However Kuweifati, who produces children's clothing, is hopeful that the elimination of customs duties on Syrian children's clothes exported to Turkey (currently 40 to 50 percent) will provide new markets for his company.

¶ 16. (C) Comment: The limited Syrian press coverage and the subdued reaction of Post contacts suggest that the recent approval of the FTA by the Turkish Parliament does not represent a significant change in the two countries' bilateral economic relationship. Though many established Syrian exporters are enthusiastic about the profit-making possibilities under the Syria-Turkey FTA, several contacts in the business community have expressed concern about the limited benefits they currently enjoy under GAFTA, Syria's most recently implemented trade agreement. Secondly, Syria's historically important textile and RMG industries are bracing themselves for significant new competition from a more efficient and competitive Turkish industry. Until the SARG can more clearly articulate the potential benefits, they at least can be expected to welcome continued delays in implementing the FTA.

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